

Message Text

CONFIDENTIAL

PAGE 01 LONDON 18239 01 OF 02 261804Z

40

ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 SSO-00 NSCE-00 USIE-00 INRE-00

SS-15 L-03 NSC-05 CIAE-00 INR-07 NSAE-00 PA-01 PRS-01

SP-02 COME-00 CIEP-01 OMB-01 AGR-05 TRSE-00 STR-04

CEA-01 ARA-06 AF-06 /078 W
----- 045150

O 261755Z NOV 75 ZFF 4

FM AMEMBASSY LONDON

TO SECSTATE WASHDC NIACT IMMEDIATE 6932

C O N F I D E N T I A L SECTION 01 OF 02 LONDON 18239

E.O. LL652: GDS

TAGS: ETRD, EAGR

SUBJECT: COFFEE: CONTACT GROUP AGREES ON ELEMENTS OF
NEW AGREEMENT

REF: LONDON 18152

1. SUMMARY. AS REPORTED REFTEL, CONTACT GROUP ADJOURNED MONDAY MORNING DEADLOCKED ON ISSUES OF SHORTFALLS AND BASIC MARKET SHARES, WITH BRAZIL AND US MAJOR PROTAGONISTS. WHEN GROUP RETURNED FOR SCHEDULED 6:00 PM MEETING, EXECUTIVE DIRECTOR BELTRAO BEGAN FIVE HOURS OF INTENSIVE CONSULTATIONS WITH THE BRAZILIAN AND US DELEGATIONS SEPARATELY AND JOINTLY WHICH RESULTED IN COMPROMISE AGREEMENT ON THESE KEY POINTS. ON BASIS OF COMPROMISE, COFFEE COUNCIL WILL NOW PROCEED TO DRAFTING OF ARTICLES FOR AD REFERENDUM INTERNATIONAL COFFEE AGREEMENT OF 1975 (TO ENTER INTO FORCE OCTOBER 1, 1976) AND SHOULD COMPLETE ITS WORK BY END OF WEEK.
END SUMMARY.

2. IN HIS CONSULTATIONS WITH USDEL, BELTRAO IDENTIFIED THE TWO MAJOR POINTS OF CONTENTION AS THE US PROPOSED ARTICLE TO DIRECTLY AND EXPLICITLY PENALIZE PRODUCERS
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 LONDON 18239 01 OF 02 261804Z

WHO FAILED TO DECLARE SHORTFALLS IN ADVANCE AND THE

BRAZILIAN FORMULA FOR THE DIVISION OF THE 30 PER CENT "VARIABLE PORTION" OF THE ANNUAL QUOTA BASED ON STOCKS WHICH WOULD GUARANTEE BRAZIL 50 PERCENT OF THE VARIABLE PORTION OR 15 PERCENT OF THE TOTAL ANNUAL QUOTA. HE ASKED WHETHER THE TWO ITEMS COULD BE TAKEN AS A PACKAGE AND IF HE COULD BE AUTHORIZED TO ATTEMPT TO WORK OUT A COMPROMISE.

3. WE REPLIED THAT IN OUR VIEW THE TWO ISSUES WERE DIRECTLY INTER-RELATED. IN THE 1968 AGREEMENT, AN ARTIFICIALLY HIGH QUOTA OF 38 PERCENT FOR BRAZIL HAD RESULTED IN "PAPER QUOTAS" AND THE LACK OF AN ADEQUATE UNDECLARED SHORTFALL PROVISION HAD LEFT BRAZIL FREE TO MANIPULATE THE MARKET BY BLOCKING THE REDISTRIBUTION OF ITS UNUSED QUOTA. IN THE MARKET SHARING FORMULA AS PROPOSED BY THE PRODUCERS, BRAZIL WOULD HAVE RECEIVED BETWEEN 33 AND 35 PERCENT OF ANNUAL QUOTA, AN AMOUNT WHICH COULD AGAIN RESULT IN PAPER QUOTAS UNLESS A MEANS WERE FOUND TO FORCE BRAZIL TO DECLARE ANTICIPATED SHORTFALLS AND PERMIT THEIR REDISTRIBUTION TO OTHER COUNTRIES WHO HAD COFFEE AVAILABLE TO SHIP. IF THE QUOTA FORMULA WERE MORE REALISTIC, OR FLEXIBLE, THE US WOULD BE LESS CONCERNED ABOUT PAPER QUOTAS AND UNDECLARED SHORTFALLS. THE US HAD NO WISH TO FORECLOSE BRAZIL FROM PRODUCING AND SHIPPING A SUBSTANTIAL SHARE OF THE MARKET.

4. AFTER CONSULTING THE BRAZILIANS, BELTRAO TOLD THE US DELEGATION THAT THE BRAZILIANS FELT IT WAS POLITICALLY IMPOSSIBLE FOR THEM TO ACCEPT AN EXPLICIT PENALTY PROVISION FOR UNDECLARED SHORTFALLS. HOWEVER, THEY COULD CONSIDER GETTING AT THE PROBLEM VIA A MORE FLEXIBLE QUOTA FORMULA. BELTRAO THEN PUT FORWARD HIS OWN PROPOSAL THAT THE MAXIMUM PORTION ANY ONE COUNTRY COULD SHARE IN THE 30 PER CENT VARIABLE PORTION OF THE ANNUAL QUOTA BE REDUCED FROM THE 50 PERCENT IN THE BRAZILIAN FORMULA TO 40 PERCENT (I.E. FROM 15 PERCENT OF TOTAL ANNUAL QUOTA TO 12 PERCENT). TO INTRODUCE FLEXIBILITY THE 40 PERCENT COULD BE MODIFIED UPWARD OR DOWNWARD BY THE COUNCIL ON A DISTRIBUTED TWO THIRDS

CONFIDENTIAL

CONFIDENTIAL

PAGE 03 LONDON 18239 01 OF 02 261804Z

MAJORITY VOTE, IF IT WERE THOUGHT DESIRABLE IN A GIVEN YEAR TO INCREASE OR TO RESTRICT FURTHER BRAZIL'S SHARE. THIS FORMULA WOULD EFFECTIVELY REDUCE BRAZIL'S POTENTIAL QUOTA FROM A RANGE OF 32 TO 35 PERCENT TO 29 TO 32 PERCENT AND SHOULD ELIMINATE OR GREATLY REDUCE THE POSSIBILITY OF PAPER QUOTAS. BELTRAO ASKED THAT IN RETURN, THE U.S. AGREE TO DROP ITS INSISTANCE ON AN EXPLICIT PENALTY FOR UNDECLARED SHORTFALLS. THE

US DEL REQUESTED TIME TO THINK IT OVER AND CONSULT.

5. WHEN CONSULTATIONS WITH BELTRAO RESUMED, THE US DEL STATED THAT THE BELTRAO PROPOSED QUOTA FORMULA WENT A GOOD WAY TOWARD REDUCING THE POTENTIAL FOR

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 LONDON 18239 02 OF 02 261804Z

40

ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 SSO-00 NSCE-00 USIE-00 INRE-00

PM-04 NSC-05 SP-02 SS-15 L-03 CIAE-00 INR-07 NSAE-00

PA-01 PRS-01 COME-00 CIEP-01 OMB-01 AGR-05 TRSE-00

STR-04 CEA-01 ARA-06 AF-06 /082 W

----- 045236

O 261755Z NOV 75 ZFF 4

FM AMEMBASSY LONDON

TO SECSTATE WASHDC NIACT IMMEDIATE 6933

C O N F I D E N T I A L SECTION 02 OF 02 LONDON 18239

PAPER QUOTAS. THE US WAS PREPARED TO DROP ITS INSISTANCE ON EXPLICIT PENALTIES FOR UNDECLARED SHORTFALLS BUT STILL NEEDED AN EXPLICIT OBLIGATION TO DECLARE ANTICIPATED SHORTFALLS AND A MEANS FOR ADJUSTING QUOTA LEVELS TO TAKE UNDECLARED SHORTFALLS INTO ACCOUNT.

6. AT THIS POINT, BELTRAO CALLED IN BRAZILIAN DELEGATION AND THE TWO DELEGATIONS SAT DOWN TO WORK PROBLEM OUT.

7. WHAT EMERGED WAS A PACKAGE UNDER WHICH: (A) AN ARTICLE DEFINING SHORTFALLS AS THE DIFFERENCE BETWEEN QUOTA ENTITLEMENTS AND ACTUAL EXPORTS AND REQUIRING EXPORTERS TO DECLARE SHORTFALLS SO THEY MAY BE DISTRIBUTED TO OTHERS ABLE AND WILLING TO EXPORT (DECLAR-

ATIONS ARE REWARDED BUT NO PENALTY IS SPECIFIED FOR
FAILURE TO DO SO); (B) PROVISION THAT COMPLIANCE
WITH FOREGOING SHOULD BE ONE OF THE CRITERIA TAKEN INTO
ACCOUNT IN THE SETTING OF TOTAL ANNUAL EXPORT QUOTAS;
AND (C) THE AFOREMENTIONED 40 PERCENT LIMITATION ON
COUNTABLE STOCKS. THIS PACKAGE, TOGETHER WITH THE
PROVISION FOR ENTRY INTO FORCE WITHOUT QUOTAS AND
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 LONDON 18239 02 OF 02 261804Z

FOR BLOWING QUOTAS IN SUBSEQUENT TIGHT MARKET SITUA-
TIONS, WILL PROVIDE CONSIDERABLE CONSUMER PROTECTION.

RICHARDSON

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: COFFEE, MEETINGS, NEGOTIATIONS, TRADE AGREEMENTS
Control Number: n/a
Copy: SINGLE
Draft Date: 26 NOV 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: greeneet
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975LONDON18239
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750412-0164
From: LONDON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t1975117/aaaaagcv.tel
Line Count: 186
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 75 LONDON 18152
Review Action: RELEASED, APPROVED
Review Authority: greeneet
Review Comment: n/a
Review Content Flags:
Review Date: 01 JUL 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <01 JUL 2003 by ShawDG>; APPROVED <06 NOV 2003 by greeneet>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: COFFEE: CONTACT GROUP AGREES ON ELEMENTS OF NEW AGREEMENT
TAGS: ETRD, EAGR, EPAP, UK, US, XX
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006